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New Zealand

Livestock and Products Annual

New Zealand Cattle and Beef Annual Report 2014

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Report Highlights:

Overall cattle numbers will begin the 2015 year estimated at 10.29 million head and rise during the year to 10.54 million head. Total slaughter numbers in 2015 are forecast to be 4.31 million head just 34,000 head below the revised estimate for 2014 of 4.34 million head. The 2015 kill total should produce 623,000 metric tons (MT) carcass weight equivalent (CWE) of which 528,000 MT CWE will be exported.

Executive Summary

Overall cattle numbers will begin the 2015 year estimated at 10.29 million head and rise during the year to 10.54 million head. The 252,000 head (2.4%) increase is driven by increases to the: dairy cow herd (45,000 head); dairy herd young stock (104,000 head); and the beef herd (103,000 head). The beef herd will increase despite another decrease in beef cow numbers to 975,000 head as farmers replenish their stock numbers, primarily by retaining progeny bred from the dairy herd, after two autumn droughts in 2013 and 2014.

There is some scope for further increases in the beef herd in the order of 150,000 to 200,000 head while beef enterprise profitability is strong relative to sheep profitability and the dairy sector is likely to enter an era of significantly slower expansion.

of beef only one percent (6,000 MT) less than the total to be produced in 2014 now estimated at 629,000 MT CWE.

Exports in 2015 should dip slightly to 528,000 MT CWE as a result of the reduced kill numbers. For 2014, exports have been revised up (two percent) to 535,000 MT CWE through increased production and imports combined with reduced domestic consumption.

The buzz in the markets is the huge rise in lean manufacturing beef prices in the US, an approximate increase of 34% in six months. This will result in a greater tonnage being shipped from New Zealand to the US in both 2014 and 2015, estimated at 263,000 MT CWE and 260,000 MT CWE respectively. This represents an increase in shipments to the United States by approximately seven percent relative to 2013. Given New Zealand's essentially stable level of exports the markets likely to have beef diverted away from them are South Korea, Japan, the Philippines, Singapore, Thailand and perhaps China.

Note: The Marketing Year (MY) is January to December. For example MY2015 is January 2015 to December 2015 which is the same as the Calendar Year (CY). In this report MY2015 or CY2015 will just be referred to as 2015

Cattle

Production & Animal Numbers

Cattle Numbers 2015

The latest estimate of cattle numbers for the beginning stocks in 2015 is 10.29 million head. This is 90,000 head less than the previous estimate for the 2014 ending inventory. The majority of the reduction is due to new Statistics New Zealand data which revised the dairy cow herd inventories downward by 99,000 head in 2013. This reduction has been factored in to subsequent inventory numbers. By the end of 2015 the total cattle herd inventory is forecast to be 10.54 million head, up by 2.4% relative to inventories in the beginning of 2014.

This increase is being driven by: increased dairy cow numbers (estimated at 45,000 head to populate new dairy farms in 2015 mainly); increased dairy young stock (104,000 head); and increased beef herd numbers. Even though beef cow numbers are projected to decline slightly during the year by 11,000 head to 975,000 head, it is projected that the young and adult beef cattle destined for slaughter will increase by 114,000 head. Farmers are reporting that they will make these increases to their herds to replenish numbers in the wake of autumn droughts in 2013 and to a lesser extent in 2014. Primarily, increases in the beef herd numbers are now fueled by retention of progeny bred from the dairy herd.

Medium Term Outlook for the Beef Herd

Looking out beyond 2015 Beef+Lamb New Zealand projections have the beef cow herd stabilizing between 975,000 and 990,000 head. There is the possibility given current stocking rates that the beef cattle numbers outside of the cow herd could increase by five to seven percent (150,000 to 200,000 head). This could increase the annual slaughter by approximately 100,000 head. Beef enterprise profitability is forecast to gain relative to sheep, which could mean farmers will stock up with cattle rather than sheep over the next two to three years. Financial prospects for the dairy sector in the short term don't look as rosy as they did eighteen months ago. This combined with the growing environmental constraints being placed on the sector is likely to mean dairy cattle numbers won't increase at anywhere near the rate of the last fifteen years. Because there is a finite area of land available increases in the land converted to dairying inevitably displaces sheep and beef stock eventually.

Slaughter Numbers 2015

Based on the Beef +Lamb NZ sector survey tempered with recent kill data and industry expectations Post forecasts the 2015 total slaughter to be 4.31 million head. This would be just 34,000 head (0.8%) below the revised 2014 slaughter number. The decrease comes from a 1% (10,000 head) reduction in the cow kill and a 1.6% (24,000 head) decrease in the other adult cattle kill numbers. This ties in with the forecast that sheep and beef farmers will be aiming to increase the number of finishing cattle on their farms.

Slaughter Numbers 2014

The overall slaughter number for 2014 has been revised up to 4.34 million head just 0.7% or 30,000 head up on the previous estimate completed March 2014. The majority of the increase (26,000 head) is the result of an anticipated increase in the cow kill (up 2.9%)

Beef Production

New Zealand Beef Production Table									
Marketing Year	2013		Actual	2014		Estimate	2015		Forecasts
	CW kgs/hd	Numbers to kill (1000's)	Total tons Beef	CW kgs/hd	Numbers to kill (1000's)	Total tons Beef	Est. CW kgs/hd	Numbers to kill (1000's)	Total tons Beef
Cow Slaughter	198.0	908	179,825	200.0	910	182,000	200	900	180,000
Calf Slaughter	16.1	1,944	31,349	16.4	1,975	32,390	16.0	1,975	31,600
Heifer Slaughter	237.1	442	104,787	237.0	460	109,020	240	450	108,000
Steer slaughter	306.4	577	176,677	307.0	569	174,683	311	560	174,160
Bull Slaughter	303.6	420	127,365	304.0	430	130,720	305	425	129,625
Other Adult Cattle SubTotal	284.3	1,438	408,828	284.0	1,459	414,423	287	1,435	411,785
Total Slaughter	144.5	4,291	620,002	144.8	4,344.0	628,813	144.6	4,310	623,385
% Change from Previous Year									
Cow Slaughter	-3.7%	19.0%	14.7%	1.0%	0.2%	1.2%	0.0%	-1.1%	-1.1%
Calf Slaughter	-1.4%	14.7%	13.1%	1.7%	1.6%	3.3%	-2.4%	0.0%	-2.4%
Heifer Slaughter	-3.3%	-2.1%	-5.2%	0.0%	4.1%	4.0%	1.3%	-2.2%	-0.9%
Steer slaughter	-3.5%	-1.0%	-4.5%	0.2%	-1.3%	-1.1%	1.3%	-1.6%	-0.3%
Bull Slaughter	-2.1%	-9.9%	-11.8%	0.1%	2.5%	2.6%	0.3%	-1.2%	-0.8%
Other Adult Cattle SubTotal	-3.1%	-4.1%	-7.1%	-0.1%	1.4%	1.4%	1.0%	-1.6%	-0.6%
Total Slaughter	-8%	8%	-1%	0.2%	1.2%	1.4%	-0.1%	-0.8%	-0.86%

Sources: StatsNZ, B+LNZ, Post estimates

2015

For 2015 beef production is forecast at 623,000 metric tons (MT) carcass weight equivalent (CWE) which will be one percent or 6,000 MT less than the revised estimate for 2014. Even though other adult cattle category average carcass weights are forecast to recover in the wake of the drought affected weights in both 2013 and 2014 this is not enough to compensate for the reduced total kill and the growing influence of the dairy sector which is increasing cow and calf slaughter numbers. They are the two lowest per head carcass weight categories. Average carcass weights have only increased approximately four percent since the early 1990's. However farmers are now growing their cattle to target weights at much younger ages which has increased productivity significantly.

2014

Beef production in 2014 has been revised up marginally by 3,000 MT CWE (0.5%) to 629,000 MT CWE. The main reason for the increase is the anticipated extra 30,000 head to be killed. However based on the first half of the year average carcass weights, it is estimated that the average carcass weights for the other adult cattle category will be less (minus 2.9kgs) than had been estimated previously in March 2014.

Longer Term Outlook

There is some capacity on New Zealand's sheep and beef farmland to increase beef production in the medium term (three to five years) as long as there isn't another rapid expansion of the dairy industry and beef enterprises maintain their relative profitability compared to sheep enterprises. Nearly all meat and fiber producing farms in New Zealand have a mix of cattle and sheep so it is usually a question of more emphasis on beef production at the expense of a few sheep rather than a complete change out of sheep into cattle. However it should be noted that the extra production is only likely to be in the region of 20,000MT to 40,000MT CWE. So at best we may see production reach 640,000MT to 660,000MT CWE again. Progeny for this expansion would almost certainly be sourced from the dairy cow herd.

PSD Tables

Animal Numbers, Cattle New Zealand (1000hd, %)	2013			2014			2015		
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Total Cattle Beg. Stks	10,199	10,199	10,180	10,278	10,278	10,182			10,287
Dairy Cows Beg. Stocks	5,009	5,009	5,009	5,103	5,103	5,004			5,092
Beef Cows Beg. Stocks	1,060	1,060	1,060	1,022	1,022	1,019			986
Production (Calf Crop)	5,000	5,000	4,923	5,060	5,060	5,080			5,165
Total Imports	0	0	0	0	0				
Total Supply	15,199	15,199	15,103	15,338	15,338	15,262			15,452
Total Exports	33	33	33	35	35	30			30
Cow Slaughter	908	908	908	885	884	910			900
Calf Slaughter	1,944	1,944	1,944	1,975	1,975	1,975			1,975
Other Slaughter	1,439	1,438	1,438	1,500	1,455	1,459			1,435
Total Slaughter	4,291	4,290	4,291	4,360	4,314	4,344			4,310
Loss	597	598	597	613	612	601			573
Ending Inventories	10,278	10,278	10,182	10,330	10,377	10,287			10,539
Total Distribution	15,199	15,199	15,103	15,338	15,338	15,262			15,452
CY Imp. from U.S.	0	0		0	0		0		
CY. Exp. to U.S.	0	0	0	0	0		0		
Balance	0	0	(0)	0	0	0	0	0	0
Inventory Balance	79	2	2	52	104	105	108	108	252
Inventory Change	2	2	(1)	1	0	0	(1)	(1)	1

Cow Change	3	0	2	0	0	0	0	0	0
Production Change	1	0	5	1	3	3	2	2	2
Production to Cows	82	81	81	83	83	84	82	82	85
Slaughter to Inventory	42	42	42	42	42	43	41	41	42
Slaughter to Total Supply	28	28	28	28	28	28	27	27	28
TS=TD	0	0	(0)	0	0	0	0	0	0

Meat, Beef & Veal New Zealand (1000hd,1000MT CWE, kg, %)	2013			2014			2015		
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015		
	Off. Data	old Post Est.	New Post Data	Off. Data	old Post Est.	New Post Data	Off. Data	old Post Est.	New Post Data
Slaughter (Reference)	4,291	4,291	4,291	4,360	4,314	4,344			4,310
Beginning Stocks	0	0	0	0	0	0			0
Production	620	620	620	630	626	629			623
Total Imports	15	15	15	13	13	16			15
Total Supply	635	635	635	643	639	645			638
Total Exports	529	529	529	535	524	535			528
Human Dom. Consumption	106	106	106	108	115	110			110
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	106	106	106	108	115	110			110
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	635	635	635	643	639	645			638
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	245	245	244	245	245	263			260
Balance	0	0	0	0	0	0			0
Inventory Balance	0	0	0	0	0	0			0
Weights	144	144	144	144	145	145			145
Production Change %	(1)	(1)	3	2	1	1			(1)
Import Change %	50	50	25	(13)	(13)	7			(6)
Export Change %	2	2	5	1	(1)	1			(1)
Consumption Change %	(9)	(9)	(4)	2	8	4			0
Imports Percent Consumption	14	14	14	12	12	15			14
Exports Percent Production	85	85	85	85	84	85			85
Population	4365113	4365113	4365113	4401916	4401916	4401916			4438393
Per Capita Consumption	24	24	24	24	26	25			25
TS=TD	0	0	0	0	0	0	0	0	0

Note: All numbers on the Beef production table are shown on a carcass weight basis. To reconcile beef exports in the table with shipped product tons in published statistics divide the number in the table for exports by 1.4.

Not Official USDA Data

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonline/psdhome.aspx>

Trade

Imports

In 2015 it is forecast imports will come off their recent high of an estimated 16,000 MT CWE for 2014 to sit at 15,000 MT. Around 90% of the imports come from Australia. While Australia has been subject to a drought-induced higher cattle kill, this has made the price of Australian beef very competitive in New Zealand. This explains the 23% increase in imports in this revision of the 2014 numbers. It is expected that when slaughter rates in Australia eventually decline, Australian beef prices will increase, thereby leading to a reduction in the price gap between Australian and New Zealand beef.

Exports

2015

Exports in 2015 are forecast to drop by 1.3% from 2014, settling at 528,000 MT CWE, as a result of the overall decline in NZ beef production.

2014

For 2014 exports have been revised up to 535,000 MT CWE which is two percent higher than the previous estimate for 2014. The combination of increased production and imports with less domestic consumption gives rise to the 11,000 MT CWE increase.

New Zealand Export Statistics							
Commodity: _PSD BEEF, _PSD BEEF							
Year To Date: January - July							
Partner Country	Quantity			% Share			% Change 2014/2013
	2012	2013	2014	2012	2013	2014	
United States	124518	129771	143366	48.74	48.21	50.22	10.48
China	3566	28925	30348	1.40	10.75	10.63	4.92

Korea South	19219	17393	17006	7.52	6.46	5.96	- 2.22
Japan	23077	21883	16908	9.03	8.13	5.92	- 22.73
Taiwan	14799	12826	15213	5.79	4.76	5.33	18.61
Indonesia	6811	4631	10852	2.67	1.72	3.80	134.36
Canada	12474	9794	10091	4.88	3.64	3.53	3.03
Malaysia	4560	5114	5707	1.79	1.90	2.00	11.59
Australia	3491	2723	3576	1.37	1.01	1.25	31.31
Philippines	8128	6353	3042	3.18	2.36	1.07	- 52.11
Hong Kong	4081	2868	2950	1.60	1.07	1.03	2.83
Rest of World	30757	26901	26407	12.04	9.99	9.25	-1.84
World Total	255483	269182	285467	100.00	100.00	100.00	6.05

Source: GTA

Markets Discussion

The big question is how the export tonnage is going to be divided up between competing buyers given the unprecedented increase in lean manufacturing beef prices in the US. Imported 90% chemical lean cow beef has risen from USD2.05/pound in February 2014 to reach USD2.74/pound by late August, a 34% increase. Already in 2012 and 2013 there was a reversal to the trend in the 2000's of reducing tonnages being shipped to the US. How much beef can be lured away from new markets and buyers established over the last five to six years? Ultimately for lean manufacturing grades of beef, primarily from cow and bull in New Zealand it will come down to price and ease of access to foreign shores.

United States

Given the advantages offered at the moment with trade to the US -- ease of access and very, very competitive pricing --volumes sent from New Zealand to the US will increase. Post forecasts shipments will reach 263,200MT CWE (188,000MT PWE) in 2014, seven percent up on 2013 and previous estimates for 2014. Due to the likelihood of overall exports being down in 2015 it is forecast that 260,400MT CWE will be shipped to the US next year, a marginal one percent reduction.

However if prices in the US strengthen much more relative to other markets there would be the potential for another 20,000MT to 30,000MT to be diverted to the US at best. It is notable that the volume shipped to the US in 2014 will be seven percent greater than both the previous estimate for 2014 and the actual total shipped in 2013.

China

China has rapidly become the number two destination for exports from New Zealand by volume. For the first half of 2014 it has held onto that position. However there are issues with market access, mostly problems at the border. It may well be quite likely that in the second half of 2014, product which a year ago went to China will be diverted to the US or Chinese importers will need to better the prices offered in the US.

Other Markets Which May Give Up Volume

NZ beef export tonnage shipped to Japan was down by 25% (4,782MT) halfway through 2014, compared to the same period in 2013. It is very unlikely that beef exports will recover in the second half of the year.

NZ beef exports to South Korea for the first half of 2014 were level relative to the corresponding period in 2013. Exports to Korea have been trending down since 2008 and it would be quite likely in the current market circumstances for this trend to continue. Korean consumers generally have a preference for grain fed beef and now that the KORUS FTA is taking effect, US beef has a five percent tariff advantage rising to eight percent in 2015.

Export volumes to Asian markets like the Philippines, Singapore, and Thailand have all declined in the first six months of 2014 compared with the same period in 2013. It is unlikely that exports will recover.

Other Destinations Moving Up in 2014

Indonesia is a market which held a lot of promise for lower value beef cuts but has disappointed during 2012 and 2013. However it is conspicuous this year with beef exports increasing 135% for the first half of 2014 over the same period in 2013, going from 4,241MT Product Weight Equivalent (PWE) to 9,983 MT PWE. Import licensing together with the reference price system which determines the level of import control has stifled beef exports from New Zealand during 2011 to 2013. However it is reported that import licenses are very much easier to obtain at present which explains the jump in volume.

Another grower is Saudi Arabia, with beef exports up 34% in the first six months of 2014 versus the corresponding period in 2013, which has taken 1,812 MT PWE for the first half of 2014.

Market Access News

New Zealand-Gulf Cooperation Council (GCC) Free Trade Agreement

Negotiations on the New Zealand – Gulf Cooperation Council (GCC) Free Trade Agreement (FTA) were concluded on 31 October 2009 following six rounds of negotiations. However the agreement has not been ratified by the GCC and still has not come into force. This FTA promises to secure new and improved access into some of New Zealand's most important Middle East markets. The GCC countries are: Bahrain, Oman, Kuwait, Saudi Arabia, the UAE and Qatar.

Readers will notice from the table (below) that the GCC countries head the table in terms of quantities, only interrupted by Egypt.

New Zealand Export Statistics for Beef to Middle East/North Africa						
Annual Series: 2008 - 2013						
	Quantity Metric Tons Carcass Weight Equivalent					
Partner Country	2008	2009	2010	2011	2012	2013
Saudi Arabia	34	1084	3182	2159	2467	5976
United Arab Emirates	2319	3047	3196	3416	4012	3787
Qatar	1014	1080	1167	1322	1335	1507
Egypt	188	551	1782	1607	1894	1234
Kuwait	1224	1336	982	804	960	1071
Oman	365	468	631	963	910	945
Bahrain	642	594	723	886	751	802

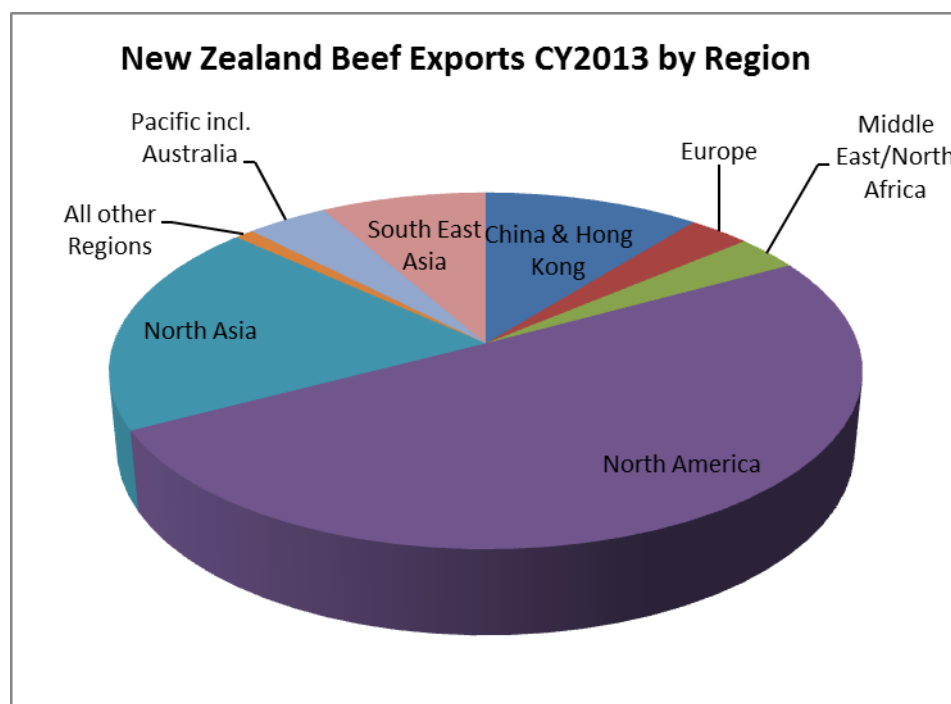
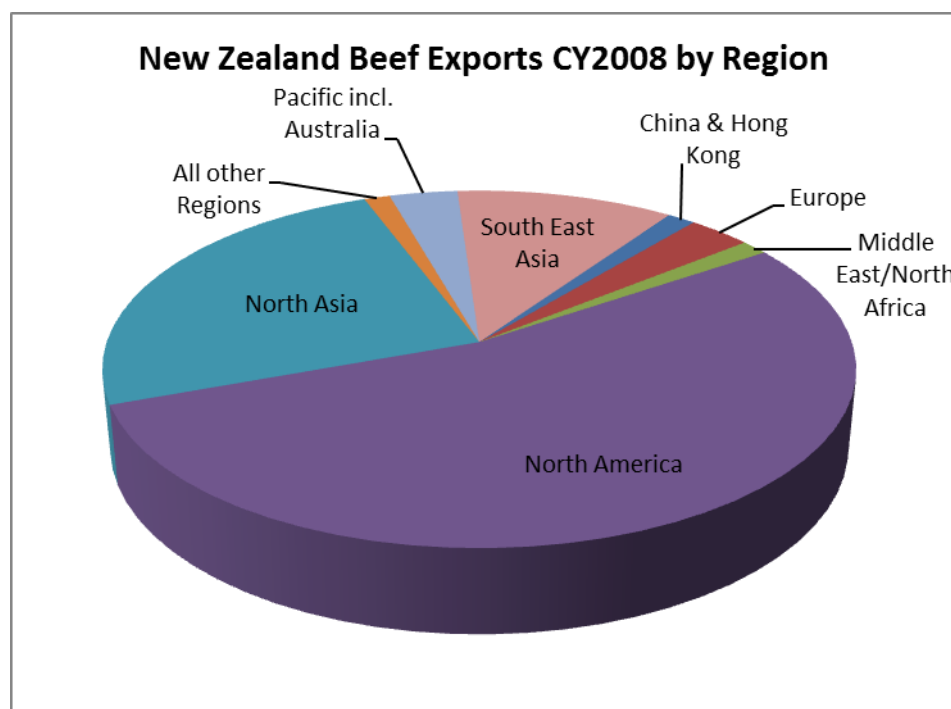
Jordan	104	1382	1664	1421	366	792
Lebanon	322	289	435	758	506	626
Israel	325	0	226	228	176	46
Syria	0	0	0	0	0	10
Yemen	0	0	0	0	0	0
Morocco	0	33	93	130	0	0
Algeria	516	542	93	0	0	0
Libya	127	297	166	18	35	0
Iraq	0	0	0	289	0	0
Total for the Region	7180	10703	14340	14001	13412	16796

Source: GTA

Overall exports to the Middle East/North Africa region have been growing at a compound rate of 18.5% per year for the five years from 2008 to 2013. Of course the GCC countries have the highest per capita incomes in the region which has allowed NZ grass-fed beef to find profitable niche markets in these countries. This group of markets has provided NZ exporters a valuable alternative to the North Asian Markets of Japan and South Korea which are not providing the market returns they once did owing to competition from US and Australian beef and the high relative tariff barriers faced in each market. If and when the NZ – GCC FTA finally comes into force it will provide extra incentive for further market development in the GCC region especially.

Indonesia- WTO Complaint

New Zealand and the US have, for the second time, made a complaint to the World Trade Organization over Indonesia's alleged unjustified and trade-restrictive licensing requirements on imports; unreasonable and discriminatory pre-shipment rules; and insufficient published details as to how the restrictions work. It is likely the complaint which is in the form of a request for consultation will not be enough to compel Indonesia to change its policies and the US and New Zealand will then likely request a World Trade Organization panel to hear the complaint. It is believed that before this step is finally taken the respective Governments will wait until the new Indonesian president is in power in case he promises to alter the policies in question.



Source: GTA

Trade access into Peru

Peruvian authority SENASA has approved the listing of all New Zealand exporters currently interested in exporting beef, sheep meat and offal into the country in December 2013. The listings are valid for three years and the Ministry for Primary Industries (MPI) has the option to request the addition of further exporters.

New Zealand – China Food Safety Agreement Signed

The Food Safety Co-operation Arrangement between the Ministry for Primary Industries (MPI) and the China Food and Drug Administration (CFDA) was signed on November 4, 2013 in Wellington by the Chinese Vice Minister, Liu Peizhi and MPI deputy director general Carol Barnao.

The agreement will encourage cooperation and the sharing of knowledge in the fields of food safety, risk management, food standards and regulations. The agreement will see a Joint Food Safety Commission (JFSC) established to enhance food safety regulatory co-operation. The JFSC will allow MPI and the CFDA to meet on an annual basis to help build a better understanding of how our respective food safety systems work.

MPI has beefed up its presence in China with several officials located at two sites. Reportedly they meet Chinese officials on an almost daily basis now.

Tariffs on NZ Beef going into China

In 2014, tariffs on beef entering China range from duty free to 5.6 percent. By 2016 beef will enter duty free.

Meat Industry Delegation to China

A New Zealand meat industry delegation, comprising 13 exporter and industry representatives, visited China in June 2014 and met Chinese regulatory agencies, industry bodies and customers. They returned confident that the visit will improve the working relationship with Chinese officials. Meat Industry Association chair, Bill Falconer, said that Chinese authorities indicated that misunderstandings such as the one that resulted in shipments being held up at ports over documentation issues will disappear. It will be interesting to see whether this occurs in practice. As mentioned earlier, there are reportedly still border access issues occurring.

Some of the groups the delegation met included representatives of the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the China Meat Association, the China Chamber of Commerce for Agricultural Products and the China Ministry of Commerce. The delegation noted there was still big demand by importers wanting to establish contact with the exporters.

New AQSIQ Listings for Meat Processing Facilities

Thirteen more meat processing plants have received AQSIQ listing, taking the number of licensed NZ processing plants to more than 100. Once listed a plant may export meat to China. Now all the major players and most, smaller companies have the majority of their processing facilities listed.

China has tightened up again on some regulatory requirements. NZ marketers supplying the China retail market now have to have product cartons labelled in English and Mandarin.

Korea - NZ Free Trade Agreement

In the first week of August 2014 the New Zealand Minister for Trade, Tim Groser said he had given his final offer to the Koreans to resolve issues such as easing tariffs for New Zealand's farmers, which cost exporters \$195 million a year. The latest round of negotiations has been taking place in Seoul during the second week of August.

As mentioned earlier the eight percent tariff differential in favor of US beef imports in 2015 is considered by some commentators enough to make New Zealand beef uncompetitive in that market. The meat industry is urging the Government to conclude a satisfactory deal as soon as possible.

Taiwan

The Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC), in essence an FTA, came into force December 1, 2013. For beef it is unlikely to have a huge bearing on the trade.

For most beef entering Taiwan from NZ the existing tariff was NT\$10/kg which equated to NZ\$0.40 per kilogram which immediately dropped to NT\$5/kg for year one (NZ\$0.20 per kilogram). For year two onwards NZ beef enters tariff free. To put the NZ\$0.20 in to context the average FOB price during January to June 2014 was \$6.89/kg.

However the advantage gained will maintain the competitiveness of NZ beef and provides a sound platform for resolution of any other market access issues that may from time to time emerge. The beef trade with Taiwan is likely to strengthen over time. It is a higher value market attuned to the qualities of grass fed beef. Already there has been a 22.5% increase in shipment volume for the first six months of CY2014 over CY2013.